



## HAWAI'I STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

# **ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM Application Number:** Date of Receipt:

To be assigned by Agency

### **APPLICANT PROFILE**

Project Title: <u>Acquisition of a membership interest in</u>	Pacific Endoscopy Center, LLC
Project Address: <u>1029 Makolu Street, Suite H, Pe</u>	arl City, Hawaii 96782
Applicant Facility/Organization:Covenant Surgica	Partners, Inc.
Name of CEO or equivalent: Richard K. Jacques	
Title:President and Chief Executive Officer_	
Address: 401 Commerce Street, Suite 740, Nashvill	e, Tennessee 37219
Phone Number: <u>(615) 345-6900</u> Fax N	lumber:(615) 345-6905
Contact Person for this Application: Whit Polley	
Title: Senior Vice President	
Address: 401 Commerce Street, Suite 740, Nashvi	le, TN 37219
Phone Number: <u>(615) 345-6903</u> Fax	Number:(615) 628-0443
2	BY APPLICANT  d have knowledge of the content and the information cribed and each statement amount and supporting
documentation included is true and correct to the bes	
0:	9/20/2012
Signature	Date
Whit Polley Name (please type or print)	Senior Vice President
INSTITUTE (DIESSE TYPE OF PRINT)	Title (nlease type or print)

		5/4 /	
1.	T۱	YPE OF ORGANIZATION: (Please ch	neck all applicable)
	Pr No Fo Ind Co Pa Lir Lir	ublic rivate on-profit or-profit dividual orporation artnership imited Liability Corporation (LLC) imited Liability Partnership (LLP)	X
2.	PF	ROJECT LOCATION INFORMATION	
	A.	. Primary Service Area(s) of Project: (pl	ease check all applicable)
		Statewide: O`ahu-wide: Honolulu: Windward O`ahu: West O`ahu: Maui County: Kaua`i County: Hawai`i County:	<u>X</u>
3.	DC	OCUMENTATION (Please attach the fol	lowing to your application form):
	A.	. Site Control documentation (e.g. leas letter of intent)	e/purchase agreement, DROA agreement,
		Attachment 1 is a copy of the letter Endoscopy, LLC	of intent to acquire an interest in Pacific
	B.		als from other government bodies (federal, before this proposal can be implemented mit, etc.)
		Not applicable	
	C.	. Your governing body: list by names, to	itles and address/phone numbers
		See Attachment 2	
	D.	may skip the four items listed below. A rticles of Incorporation: S  By-Laws: See Attachment Partnership Agreements: N	4

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4. **TYPE OF PROJECT.** This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Ownership	Change in Beds
Inpatient Facility					
Outpatient Facility				X	
Private Practice					

5. BED CHANGES. Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
:			
TOTAL			

## 6. PROJECT COSTS AND SOURCES OF FUNDS

A.	List A	All Project Costs:	AMOUNT:
	1.	Land Acquisition	
	2.	Construction Contract	
	3.	Fixed Equipment	
	4.	Movable Equipment	
	5.	Financing Costs	
	6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (Space lease)	
	7.	Other: fair market value of acquired membership interest in Pacific Endoscopy Center, LLC	\$20,155,655.00
		TOTAL PROJECT COST:	<u>\$20,155,655.00</u>
В.	Sourc	TOTAL PROJECT COST:	<u>\$20,155,655.00</u>
В.	Source 1.	×	\$20,155,655.00 \$15,116,741.00
В.		ce of Funds	
В.	1.	ce of Funds Cash	
В.	1. 2.	Ce of Funds  Cash  State Appropriations	
В.	<ol> <li>2.</li> <li>3.</li> </ol>	Ce of Funds  Cash  State Appropriations  Other Grants	

TOTAL SOURCE OF FUNDS: \$20,155,655.00

7.	CHANGE OF SERVICE: If you are proposing a change in service, then please
	briefly list what services will be added/modified. Be sure to include the establishment
	of a new service or the addition of a new location of an existing service. Please
	reference the Certificate of Need Rules Section 11-186-5 for the categories of
	services. If you are unable to determine which category best describes your project,
	please consult with agency staff.

This application is for the acquisition of a membership interest in 式	_
<b>№</b> .0	η
Pacific Endoscopy Center, LLC, an ambulatory surgery Finter	ゴ
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specializing endoscopy, by Covenant Surgical Partners, and The service	<
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category is per HAR § 11-186-5(3)(C). No new locations or expansions	
7	
are proposed in this Application.	_

- 8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:
  - a) Date of site control for the proposed project: Upon closure of the purchase and sale transaction, which is expected to occur no later than October 31, 2012.
  - b) Dates by which other government approvals/permits will be applied for and received: Not applicable.
  - c) Dates by which financing is assured for the project: Not applicable. The acquisition will be paid for with cash and stock.
  - d) Date construction will commence: Not applicable.
  - e) Length of construction period: Not applicable.
  - f) Date of completion of the project: Upon closing of the purchase and sale transaction.
  - g) Date of commencement of operation: Upon closing of the purchase and sale transaction.

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

- 9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.
  - a) Relationship to the State of Hawai'i Health Services and Facilities Plan.
  - b) Need and Accessibility
  - c) Quality of Service/Care
  - d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
  - e) Relationship to the existing health care system
  - f) Availability of Resources.

#### **EXECUTIVE SUMMARY**

Covenant Surgical Partners, Inc. ("Covenant"), a Delaware corporation, seeks to acquire the majority membership interest in Pacific Endoscopy Center, LLC ("PEC"), which operates an ambulatory surgical center ("ASC") specializing in endoscopic procedures. Covenant is a dynamic healthcare organization that was established to proactively provide superior customer focused healthcare to its patients. Darrell Lee, M.D., Yousif A-Rahim, M.D., and Robert Wong, M.D., (the "Physician Members") have agreed to sell 55.9% of their membership interest in PEC to Covenant. In a prior transaction, the Physician Members acquired the membership interest formerly owned by Hawaii Pacific Health Partners, Inc. ("HPH"). Accordingly, rather than Covenant acquiring HPH's membership interest in addition to the membership interests owned by the Physician Members as stated in the Letter of Intent appended hereto as Attachment 1, Covenant will acquire 55.9% majority membership interest from the Physician Members.

Covenant has entered into similar arrangements with other ambulatory surgical centers throughout the United States and, by application of its proven management system has improved their operating efficiency, reduced their expenses and increased their revenues.

The acquisition is not intended to change the scope of services now provided at the ASC. PEC intends to maintain the same services described in CON # 06-05, which was approved on June 20, 2006 ("CON # 06-05"). The acquisition is expected to result in lower annual operating costs because of the economies of scale that will be realized from the ASC's participation in the larger Covenant network of centers and implementation of its proven operating policies and management expertise.

a) Relationship to the State of Hawai i Health Services and Facilities Plan.

The proposed acquisition will advance the Statewide Health Coordinating Council's ("SHCC") priorities of

- promoting and supporting the long-term viability of the health care delivery system by ensuring the ASC's financial viability and that it continues to provide the endoscopic procedures described in CON # 06-05 for the foreseeable future;
- maintaining overall access to quality health care at a reasonable cost because Covenant's participation in the business is expected improve the ASC's operational efficiency and reduce its operating expenses; and
- supporting preventive initiatives by providing endoscopy procedures that facilitate
  the early detection and treatment of stomach and colorectal cancers.

The proposed acquisition will advance the West Oahu Subarea Council ("SAC") priorities of (1) improving and increasing access to routine outpatient diagnostic services and (2) improving education and increasing preventive medicine by improving the ASC's operational efficiency and reducing its operating expenses, thereby minimizing financial barriers and improving access to routine outpatient diagnostic services and to stomach and colorectal cancer preventive services for West Oahu residents.

#### b) Need and Accessibility

The need for the ASC's services is evidenced and established in CON # 06-05. Access to endoscopic procedures in the current service area will be maintained at current levels. The proposed acquisition will continue to serve all Hawaii residents including low income persons, racial and ethnic minorities, persons with disabilities and other underserved groups, and the elderly.

#### c) Quality of Service/Care

PEC will continue to ensure the continuity and quality of care by observing the same protocols described in CON # 06-05. The proposed acquisition is not intended to alter the scope of services provided at the ASC. The ASC will continue to be licensed by the Hawaii Department of Health and Medicare certified and to comply with all applicable federal and state regulations. It will continue to provide high quality endoscopic services by physicians who are licensed by the Hawaii Department of Health and board certified or board eligible in gastroenterology. The ASC will continue to maintain staff competencies through ongoing continuing education and to follow its existing written Quality Management and Improvement Plan.

d) Cost and Finances (include revenue/cost projections for the first and third year of operation)

Covenant will pay the Physician Members \$20,155,655 for 55.9% of their membership interest in the ASC. The purchase price will consist of cash and stock. The price has been adjusted from the amount stated in the LOI per its formula for the adjustment of the purchase price of the acquired membership interests based on PEC's financial performance prior to the closing date of the purchase transaction.

If the purchase price increases further, Covenant will submit additional information to the agency describing the amount of increase in the purchase price.

PEC's estimated revenue and operating costs for the first and third full years of operation following the acquisition are shown in the table below.

	Projected 1st Full	Projected 3rd Full
	Year Operations	Year Operations
Total Operating Revenue	\$6,710,000	\$7,050,000
Operating Expenses		
Salaries, Wages, Benefits	\$1,060,000	\$1,163,700
Other Expenses	\$1,418,000	\$1,476,900
Depreciation	\$55,600	\$55,600
Total Expenses	\$2,533,600	\$2,696,200
Net Income (Loss) from Operations	\$4,176,400	\$4,353,800
Add Back: Depreciation	\$55,600	\$55,600
Excess (Deficit) Fund from Operations	\$4,232,000	\$4,409,400



#### e) Relationship to the existing health care system

The proposed acquisition is not expected to have any negative effect on other providers or impair the public's access to services. The ASC intends to provide the same services that it does now after the acquisition. The same doctors are expected to continue practicing at the ASC. Accordingly, it will not have any significant impact on the existing health care system.

f) Availability of Resources.

There are minimal financial obstacles to the proposed acquisition. Covenant will pay the Physician Owners for the ownership interest purchased with a combination of cash and stock. The proposed acquisition is not intended to result in any change in the staff currently employed by the ASC. Accordingly, no additional employees will be necessary as a result of the proposed transaction.

10.	_	y to file for Administrative Review. This projective review because: (Check all applicable)	ect is elig	ible to fil	e for
		It involves bed changes, which will have a \$1,000,000 or less, and which will have a operating expense of less than \$500,000.			
	===	It involves service changes which will have \$1,000,000 or less, and which will have a operating expense of less than \$500,000.	•	•	
		It is an acquisition of a health care facility of result in lower annual operating expenses service.			
		It is a change of ownership, where the change another substantially related entity.	e is from	one ent	ity to
		It is an additional location of an existing service	e or facil	ity.	
	_ <u>X</u>	The applicant believes it will not have a sign health care system.	nificant ii	mpact or	n the
		#1, #2, 5.7	ST HLIH PLNG & DEV. AGENCY	12 001 -9 P3 21	RECEIVED